

Jun. 15. 2007 3:02PM Chicago Climate Exchange

No. 0135 P. 1

FAX

To:

FOR Eileen

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Judy

From:

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CC:

Lawrence Goulder, Vice-Chair, Market Advisory Committee CAL EPA

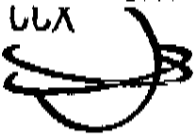
→ Dan Skopec, Undersecretary, CAL EPA
Eileen Tutt, Asst. Secretary for Climate Change Activities, CAL EPA

Total pages including cover letter: 4

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CCX



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June 15, 2007

Mr. Winston Hickox
Chairman, California Market Advisory Committee
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Dear Winston,

First let me thank you and congratulate you for your long-time leadership on environmental and other issues, and for the hard work of the Market Advisory Committee which has recently issued a Final Draft of its Report entitled "Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California." The leadership of California on climate change issue is of global significance.

However, I write to urge the removal of the sentences referencing the Chicago Climate Exchange (CCX) which appear in the "suitability for linking" column on pages 68-69 in Table 6-I entitled "Other Emissions Trading Programs and their Suitability for Linkage to a California Program" in that these sentences are inaccurate, ill-informed, and derogatory and, as such, undermine the report overall.

As you know, CCX, which was launched in 2003, is the world's first, and North America's only integrated greenhouse gas reduction and emissions trading system for all six greenhouse gases and, though voluntary, requires emitting members to make a legally binding commitment to emissions reductions. CCX was founded by Dr. Richard L. Sandor, Chairman and CEO, who, as you know, is known as the "father of financial futures," and renowned as an innovator in finance, including environmental finance—named both by Treasury and Risk Management Magazine as one of the Top 100 Persons in Finance, and Time Magazine as a Hero of the Planet for his founding of CCX.

In fact, I was glad to have the opportunity to personally speak about CCX to Governor Schwarzenegger in April 2007, and he has invited Dr. Sandor to brief him personally in due course. I myself have also personally briefed several members of the Governor's staff as well on an ongoing basis over the last years. My colleague, Dr. Michael Walsh, Executive Vice-President of CCX and a primary architect of CCX rules, and I have also briefed the former Secretary of Environment, Alan Lloyd, and his staff, in 2006, at their invitation.

As to the California Air Resources Board (CARB), we were invited by them explicitly to provide a briefing on CCX this year after the passage of AB32, which we did on March 9, 2007. On that date, Dr. Walsh and I spent several hours with Michael Scheible, Deputy Executive Officer, and his assembled team, briefing them on CCX operations and rules and many questions were asked and answered. This briefing at CARB followed a briefing convened by the Milken Institute on March 8 on AB 32, where Dr. Sandor described CCX and its operations to many members of the California community, where he sat on a panel with Dan Skopec, Deputy Commissioner of Environment for the State of California, who also heard the briefing. You had been invited to this event but could not attend.

Also, as you know, the Market Advisory Committee delegation visited London this year, where the group was briefed by our sister organization, the European Climate Exchange (ECX), which was launched by Dr. Sander and CCX in 2005 and which is now the largest Exchange operating in the Kyoto compliant system, as well as its reference point institution on pricing. And, as you know, we had also invited the delegation to visit CCX offices in Chicago in my email to you on February 9, 2007 after we had discussed such a visit, but we did not hear from the Group in reply. In fact, to my knowledge, no request for information of any kind was made of CCX by anyone on the Market Advisory Committee.

As to other public sector enterprises and CCX, perhaps the Market Advisory Committee was unaware of the below Statement of Principles issued on May 22, 2007 by to that date CCX public sector members, all of whom have also publicly endorsed a mandatory national system:

**"Statement of Principles Regarding the Chicago Climate Exchange
By Participating State and Local Government Members of the Exchange**

1. Membership in CCX enables jurisdictions to have independently verified emissions inventories. The CCX provides a platform for tracking, reporting and stringent third party verification of emissions that enables government to use credible data as we plan ahead.
2. CCX is a testing ground that offers unique and tangible opportunities to actively engage in carbon market development. CCX is exploring and validating carbon markets as a part of one solution to global warming. Meaningful aspects of this membership for local and regional jurisdictions include:
 - a. Preparing our data, and participating in detailed audits, testing our assumptions and giving each participant practical experience that informs our positions and actions.
 - b. Undertaking a legally binding contract to reduce greenhouse gas emissions within the member's jurisdiction.
 - c. Gaining experience with cap and trade systems, and offset markets.
3. Participating in CCX gives governments access to rule-making experiences that we will need to participate constructively in the national debate and legislative decisions on policies associated with cap and trade programs in the United States.
4. Membership in CCX is a significant opportunity for dialogue between public and private organizations in the development of global warming mitigation solutions.
5. CCX is one of the leaders in creating practical solutions to greenhouse gas emissions issues. We are eager to continue working with the CCX in an environment of continuous improvement which includes harmonizing accounting, rules and protocols across other greenhouse gas markets, registries, inventories and project based reductions.
6. We also advocate for a comprehensive, fair and effective national program of mandatory, market based limits and incentives on emissions of greenhouse gases that slow, stop and reverse the growth of such emissions to achieve a national climate stabilization goal with a range of 80% below current levels by 2050."

The sentences referring to CCX on pages 68-69 of the Committee's Report impugn the common sense, motivations, intelligence, due diligence and commitment to environmental stewardship of not only ourselves, but our members, which include many of the leading enterprises in the world, including in California, such as the cities of Oakland and Berkeley; Sacramento County; Safeway; Intel; Sony Electronics, and others, all of whom cite their CCX Membership with pride.

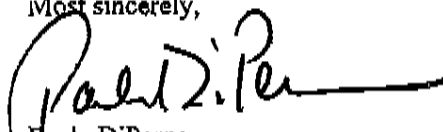
The sentences on CCX on pages 68-69 may also be moot, in that CCX has already accomplished a demonstration practical and conceptual linkage with the EU-ETS at the request of the sovereign state of the UK.

As we all agree, climate change is a pre-eminent challenge of our time, although there are many opinions as to how to meet it. The authors of the Committee report may wish to make no reference to CCX at all, but the retention of the sentences on pages 68-69 is unacceptable.

We congratulate you again on the hard work the report represents otherwise on behalf of the citizens of California. As always, we remain available to discuss CCX with any interested party and would look forward to finding a way to work constructively together.

My thanks for your consideration.

Most sincerely,



Paula DiPerna
Executive Vice-President,
Corporate Recruitment & Public Policy

Cc: Dan Skopec, Undersecretary, California Environmental Protection Agency
Lawrence Goulder, Professor, Stanford University



June 15, 2007

Mr. Winston Hickox
Chairman, California Market Advisory Committee
c/o California Strategies
980 Ninth Street, Suite 2000
Sacramento, CA 95814

RE: Recommendations for Designing a Greenhouse Gas Cap-and-Trade System in California:
Comments on Market Advisory Committee Report

Dear Mr. Hickox:

On behalf of the members of the California Retailers Association that represents retailers throughout the State of California, we commend the efforts of the Market Advisory Committee on their "Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California." It is an important and well-written document that lays the groundwork for implementation of AB 32 and establishes a framework from which to build regarding compliance mechanisms.

In issuing the report, the Committee asked for initial comments to be submitted by June 15, 2007 which is why we are writing today. We appreciate the opportunity to provide additional feedback, which we hope you will consider for the report that will be submitted to the California Air Resources Board on June 30, 2007.

Of particular concern to our members is Section 6.5.4, which discusses linkage challenges. We are concerned that the initial opinion of the Committee could discourage early action achievements by environmentally conscious companies that are already participating in greenhouse gas reduction programs. Specifically, Table 6-1 recommends not linking with the Chicago Climate Exchange (CCX), which is one of the first GHG exchanges developed for the North American market.

We feel that the assessment that the CCX is "voluntary" is not completely accurate. Although membership is voluntary, reductions are mandatory, and the member commitment is legally binding. In addition, the CCX uses the National Association of Securities Dealers (NASD) as its independent auditing arm. CCX currently operates in both voluntary and mandatory markets. It launched the European Climate Exchange, now the leading Exchange for trading in the European Union Emission Trading Scheme. We believe that a successful program must have the ability to link to other established systems, and we feel that CCX offers compelling benefits on this front. Additionally, it is our understanding that CCX is willing to examine its protocols and procedures further to ensure they are in line with California's objectives.

Given this important information we would urge you to consider the merits of all existing programs, including the CCX, and work with those entities to develop rules that are fair to the early adopters.

Additionally, we feel it is important to reiterate some of the concepts we believe are essential to the design of effective market solutions to achieve the stated compliance programs. We appreciate the fact that many of these concepts are incorporated in your report and as implementation moves forward, that these guiding principles will continue to be critical to the success of the compliance programs. They include:

- The distribution of reductions based upon a percentage reduction off of an overall cap.
- A "free allowance" method to distribute allowances.
- A phase-in approach with a voluntary opt-in for all entities.
- Emission banking and trading.
- Required third-party verification for all credits and reductions.
- Management of all accounting systems through the exchange.
- Credit given for early action to reduce carbon emissions.
- The implementation of a global offset program (CA+USA+Global+Kyoto).
- CFTC and FASB rules governing the marketplace.
- Transportation to be considered like all other emission sources.
- Indirect emissions to be considered in the development of the baseline and the creation of offsets.
- Rules regarding adjustments to the baseline for growth or contraction.

We appreciate the opportunity to comment on your initial report and again compliment you and the Committee for your work and dedication to this critical issue. Our industry looks forward to continuing to work with you and your team in the months ahead to provide additional input and recommendations.

Sincerely,



Bill Dombrowski
President